

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

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R 110812Z AUG 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 0804

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

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EO 11652: NA

TAGS: EFIN, ID

SUBJ: INFLATION SPURTS IN JULY BUT STILL LOW FOR YEAR

1. FOLLOWING AN AUG 9 CABINET MEETING DEVOTED TO ECONOMIC MATTERS MINISTER OF STATE SUDHARMONO REVEALED THAT THE COST OF LIVING INDEX, THE GOVERNMENT'S PRINCIPAL INDICATOR OF INFLATION, HAD SHOT UP BY 1.58 PERCENT IN JULY. THE SHARP RISE WAS LED BY INCREASES IN FOOD COSTS. ACCORDING TO SUDHARMONO, PRICES OF THE NINE STAPLES WATCHED MOST CLOSELY BY THE GOI WENT UP DURING THE LAST WEEK ALONE BY .51 PERCENT. THE MINISTER PLEDGED THE GOI TO ITS "BEST POSSIBLE EFFORT" TO RESTRAIN PRICES IN THIS PRE-LEBARAN PERIOD, TRADITIONALLY THE TIME OF YEAR OF STRONGEST UPWARD PRESSURE ON PRICES.

2. DESPITE JULY'S INCREASE, NEARLY 19 PERCENT ON AN ANNUAL BASIS, THE COST OF LIVING INDEX FOR THE FIRST SEVEN MONTHS OF 1978 HAS RISEN BY ONLY 2.32 PERCENT. PRICES ROSE BY A MERE .74 PERCENT IN THE FIRST QUARTER AND NOT AT ALL IN THE SECOND. IF THE GOI IS ABLE TO HEED PRESIDENT SUHARTO'S ADMONITION TO INSURE THAT PRICE INCREASES BE HELD TO A MINIMUM, FURTHER IMPROVEMENT IN CUTTING THE
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RATE OF INFLATION, WHICH IN CALENDAR 1977 WAS SLIGHTLY UNDER 12 PERCENT (9.75 PERCENT INFY 77-78), ACCORDING TO BANK INDONESIA (BI) STATISTICS, SHOULD BE POSSIBLE.

3. IN CONVERSATION WITH EMBOFF, GENERAL MANAGER OF BI'S ECONOMICS AND STATISTICS DEPT ATTRIBUTED LOW PRICE INCREASES IN FIRST HALF OF 1978 TO GOOD RICE HARVESTS

AND GOOD STOCKS OF THAT COMMODITY AND OTHER FOOD CROPS.
ANOTHER FACTOR IS THAT GOVERNMENT HAS PUT BRAKES ON
GROWTH IN MONEY SUPPLY. IT GREW BY 11.6 PERCENT IN THE
FIRST SIX MONTHS OF 1978, COMPARED WITH 22 PERCENT FOR
THE COMPARABLE PERIOD LAST YEAR. IN RESPONSE TO A
QUESTION GENERAL MANAGER SAID THE EFFECTIVE DEVALUATION OF THE
RUPIAH AGAINST THE CURRENCY OF INDONESIA'S LARGEST
TRADING PARTNER, JAPAN, HAD NOT YET HAD AN INFLATIONARY
IMPACT ON INDONESIA. HE OPINED THAT JAPANESE EXPORTERS
WERE SIMPLY SQUEEZING PROFITS.
GARDNER

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NNN

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